Statement of the

California Beet Growers Association

before the

California Department of Food and Agriculture

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"The 2007 Farm Bill – A California Perspective"
Listening Session – August 1, 2006
Sacramento

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I. The U.S. Sugar Beet Industry Began in California.

The production and processing of sugar beets in the United States began in California in 1880 with the construction in Alvarado of this country's first successful beet sugar factory. Since that time, the raising and processing of sugar beets has been an important source of income for thousands of California producers and farm and factory workers. It has also provided a reliable supply of high quality, affordable sugar for the tables of Californians and for use by the state's extensive food processing industry.

II. After a Period of Decline in Production, California Sugar Beet acreage has stabilized.

The state's beet sugar sector has experienced a significant decline in acreage and production in recent years. There are several reasons for this, including federal trade policy, high energy costs, increased land prices, and a shift to high value permanent crops just to name a few. In spite of this reduction in size, however, sugar beet production and the processing of beets into refined sugar remains an important part of our state's agricultural sector. Sugar and by-products from California sugar beets generate over $150 million is sales annually. In addition, the industry stimulates much more secondary economic activity.

After the closure in the late 1990's of processing plants in Woodland and Tracy, the two remaining California beet sugar factories are in Mendota, in the San Joaquin Valley, and Brawley, in the Imperial Valley. They are important contributors to the economies of the small valley towns where they are located and provide jobs in communities where unemployment is high. In September 2005, Imperial Sugar Company sold its Holly Sugar operations in California to the Southern Minnesota Beet Sugar Cooperative. These included the Mendota and Brawley factories and a packaging and distribution facility at the former factory site in Tracy. Holly's beet sugar processing and distribution activities in California operated under the Spreckels Sugar Company name, and they continue to operate as Spreckels under the new ownership by Southern Minnesota.

Today, our producers are encouraged by higher sugar prices. California growers are very productive, having an advantage in their yield of sugar-per-acre above that of other U.S. producers because of the temperate climate in California. Growers in the state produce an average yield of 38 tons per acre compared to the national average of fewer than 23 tons per acre.

California growers benefit from having a variety of crop choices available to them as they make their growing decisions each year. This is important both for reasons of economics and soil conservation. Today's improved prices and strong productivity make raising sugar beets a very solid option for many California growers to consider. In areas of

California where sugar beet processing plants have closed, the growers miss the option to produce sugar beets. In addition, when producers have been forced to shift acreage out of sugar beets to some other crop, the switch has put downward pressure on prices of the newly chosen crops.

III. The Federal Farm Bill Hurts California.

The 2002 Farm Bill currently in effect limits the marketing of beet sugar with a national allotment, and it contains a formula for allocating the marketing allotment to all U.S. processors. The allocation formula has locked in a limit on how much beet sugar may be sold from California's processing plants. It has taken California's share of the market as it was in the 1998-2000 crop years and reduced it by 1.25 % of the national total for each of two factory closures. Thus, the 2002 Farm Bill stripped California producers of the ability to plant 50,000 acres of sugar beets, or 2.5% of the national total. Because USDA allocates the marketing allotment to processors, not to growers, the limitation is imposed indirectly on the growers. Thus, the "California glitch" in the Farm Bill's beet sugar allocation formula hurts California producers uniquely and it also hurts the only processor operating in the state.

If the 2002 Farm Bill is extended without fixing this provision, then the federal government will be holding a cap over our state's beet sugar industry until the year 2011 or beyond. This will prevent our growers from taking advantage of the favorable trends in the sugar sector. It will discourage investment in factory modernization. It will reduce the supply of high-quality, low cost, readily available sugar to the state's food processing industry and to retail consumers.

IV. The Farm Bill Limit Falls Unevenly on California.

While California lost a large part of its industry due to the closings of factories at Woodland and Tracy, other U.S. beet sugar processors did not suffer the same consequences when they closed factories. This is because their closures did not occur during the arbitrary window of time that was used in the Farm Bill, which was the 1998-2000 crop years. Since that time window closed, there have been numerous other factory shutdowns, including Bayrd, Nebraska; Greeley, Colorado; Moses Lake, Washington; Carrollton, Michigan; Nyssa, Oregon; and a molasses desugarization operation at Hereford, Texas. However, the way the Farm Bill works, only Holly Sugar's California operations were penalized by downward allocation adjustments due to closures. The six other closures since then took place outside the arbitrary base period in the Farm Bill, so that those processors did not see their allocation cut by 1.25% for each closure.

The owners of the California plants, Southern Minnesota Beet Sugar Co-operative, are strong believers in the co-operative principal and are encouraging California growers to somehow form a co-op to operate the California processing plants. The sad fact is, however, that without an adjustment to the California allotment, the dream may not become a reality and one plant may be forced to close.

There are efficient sugar beet growers in California who would like the opportunity to produce and compete in the future. They only ask that federal farm policy not impose an unfair limit on their ability to sell their crop.

V. The California Anomaly in the 2002 Farm Bill's Beet Sugar Subtitle Can and Should be Fixed.

In any extension of the current Farm Bill as well as in the new long-term Farm Bill, Congress can, and should, correct provisions that fall unevenly on different regions and have had effects that most members of Congress did not foresee when they voted for it. For purposes of beet sugar, the legislation should recalculate baseline production without making any adjustments for plant openings or closures. This would help alleviate the harm done uniquely to California. Adjustments for disasters and for new technology in the form of molasses desugarization could be left in place as a matter of fairness and good policy.

VI. Proposed Language for California Perspective on 2007 Farm Bill

We request that the Secretary include in California's position on the 2007 Federal Farm Bill the following language:

The U.S. beet sugar industry started in California, and sugar beets, continue to be an important crop for California producers. The formula in the 2002 Farm Bill for allocation of the national beet sugar marketing allotment imposes a limitation on California unlike that for any other state. The new Farm Bill, and any extension of the existing law, should fix this anomaly that hurts our state's industry. The current law imposes an upper limit on the marketing of California beet sugar that is more restrictive than the allotment's limit on any other state. This is because the 2002 law cut back on the allocation of our state's only processor by an additional 2.5% of the national allotment for the closing of two factories within our state that happened to shut down during the arbitrary baseline in the bill, while the baseline was written so as not to cut back the allocations of processors in six other states where later closures took place. This is unjustified discrimination against California growers and sugar factory workers. It can, and should, be corrected in the next federal Farm Bill.

Thank you for considering our request. We would be pleased to work with you in this process and to answer any questions you may have.